

Detailed Results

KOF Business Tendency Surveys, January 2021

Zurich, 4 February 2021, 10am

Firms' business comes under pressure again

The KOF Business Situation Indicator fell in January after having risen slightly at the end of 2020. This means that business is now less encouraging than last autumn but still better than it was back in the summer. The second wave of the pandemic is clearly acting as a drag on some sectors. Overall, however, the Swiss economy is not deteriorating as sharply as it did in spring 2020.

Business in various service sectors is again being hit by the pandemic. The **hospitality industry**, **wholesale** and **other services** report a deterioration. In contrast, the business situation in the manufacturing sector is unchanged. Even the most recent tightening of restrictions by the Federal Council on 13 January has hardly affected this stable assessment of the situation. A comparison of the responses given before and after this decision shows no change of opinion in the manufacturing sector.

The situation in **construction**, **project engineering** and **financial and insurance services** actually continued to improve in January. The results also show an improvement in the **retail sector**. However, the shop closures ordered by the Swiss government are still included in the data to a very limited extent. Overall, the beginning of the year shows divergent trends: while the business situation in the goods-producing sectors is stable to positive, some service industries in particular are struggling. The pandemic is thus driving a wedge between the trends in different sectors of the economy.

Business situation sector by sector

The manufacturing sector is still on the road to recovery and is fairly confident about the coming months. Business in the manufacturing sector remains virtually unchanged despite the adverse environment. The situation is actually improving for strongly domestically focused companies. Demand is picking up overall, and dissatisfaction with order books is declining slightly among survey respondents. After capacity utilisation was raised in the fourth quarter, the latest growth in orders has increasingly been met by inventories. Production reserves would be available, and technical capacities have been utilised at below-average levels. However, production has been increased less frequently than in the autumn.

The competitive situation is more or less stable in Switzerland, as it is in the EU and the rest of the world, so pressure on earnings continues to decrease. Business expectations for the coming six months remain upbeat, albeit slightly less so than before. Survey respondents report that demand is likely to grow, and they are not planning any major changes in sales prices. Nevertheless, companies are cautious about making concrete adjustments: production planning has not improved, while personnel planning remains fairly restrictive.

Although the recovery in the construction-related segments continues, there are no signs of any improvement approaching pre-crisis levels in the near future. Business continues to improve in the construction and project engineering sectors associated with building activity. However, the situation is still significantly less encouraging than it was in January 2020. Capacity utilisation is returning to normal in the *construction industry*. Dissatisfaction with existing order books is decreasing again, and earnings

are under less pressure than before. Beyond this normalisation, however, momentum in the construction sector is low. Demand has not increased any further recently. Companies expect demand and construction activity to remain subdued for the next three months.

Project engineering firms paint a similar picture. They do not expect to see any substantial change in demand in the near future. Consequently, they are not planning to significantly increase their provision of services and, accordingly, do not intend to change their staffing levels much. As in the construction industry, planners' business forecasts are more cautious than they were at the beginning of 2020.

Although the situation in the retail sector was encouraging at the beginning of the year, this industry and the wholesale trade are now likely to feel the impact of closures. *Retailers* are reporting that business remains buoyant at the beginning of the year, while large companies are even describing it as excellent. Small and medium-sized firms rate their situation as average. However, most of these responses were received before the renewed closure of large parts of the retail sector. It is possible that many retailers did not expect to face such severe restrictions again. Although they were already cautious prior to the shutdown and planned to wait before ordering new goods, overall they still expected sales figures to remain stable in the near future. However, small and medium-sized businesses have become increasingly sceptical about sales forecasts since the autumn. Only large retailers still expect to see a satisfactory level of sales in the near future. The recently imposed closures are now likely to thwart some of these plans. As in the spring, there could once again be winners as well as losers in the retail sector.

Business activity in the *wholesale sector* will again be slightly muted in January. However, there are differences within this industry: while the situation in the wholesale trade in goods used for production is reckoned to be positive overall, it is gloomy in the wholesale trade in consumer goods. The restrictions on the retail and hospitality sectors are likely to have an adverse impact on the latter. A detailed analysis of the survey shows that the responses given after the most recent restrictions imposed on 13 January were more sceptical than before. This negative trend is therefore likely to have intensified over the course of the month. In January, overall, both wholesale segments were more sceptical about future levels of demand than they were in the autumn of last year.

Although the situation among financial and insurance service providers is encouraging, earnings are likely to increase only slightly in the near future. *Financial and insurance service providers'* business is buoyant overall and improved further in January as their earnings grew slightly. Against the background of a further increase in demand, financial institutions expect earnings to continue to rise moderately over the coming months. The subgroup of *banks*, however, has recently had a few problems increasing their earnings. This is despite the fact that assets under management have grown. However, their interest-earning business has come under pressure while their trading operations are doing fairly well. Fees and commissions are providing a significant boost. Banks mainly continue to see opportunities in fee and commission business in the near future. Private and corporate clients' demand for credit should also continue to rise.

The situation in the hospitality industry is gloomy across all tourism areas, including the alpine regions, and is not expected to improve any time soon. The second wave of coronavirus is hitting the hospitality sector hard. In the mountain and lake regions, where business recovered slightly in the second half of 2020, the situation indicator fell sharply in January. Moreover, there has been no noticeable improvement in the major towns and cities since the beginning of the pandemic. Overall, the business situation in the hospitality industry is therefore very weak. In this respect there is no difference between hotels and restaurants. The outlook for the next three months is also gloomy. Foreign guests are likely to stay away. Hoteliers' hopes of overnight stays by domestic guests have also been dashed.

The second wave of the pandemic is hitting other service providers again, with transport and personal services suffering especially. However, they are hoping for light at the end of the tunnel. The pandemic is causing a further slump in the other services sector. Having recovered slightly in the second half of 2020, the business situation here was reckoned to be less encouraging in January. However, it is currently nowhere near as bad as it was in the spring of last year. Moreover, market participants are optimistic about the outlook for the next six months. Capacity utilisation in the transport sector remains particularly low. The positive demand outlook for this sub-sector still prevailing in the autumn was revised downwards at the beginning of this year.

However, companies in the personal services sector in particular are responsible for the current deterioration of the business situation in other services. These include healthcare and social services as well as firms operating in the fields of arts, entertainment and recreation. While personal services were subject to fairly minor fluctuations in previous business cycles, they are being hit particularly hard by the pandemic. But they too hope that demand will pick up again in the next three months.

The findings of the latest KOF Business Tendency Surveys from January 2021 include the responses of more than 4,500 private firms from industry, construction and the most important service sectors. This equates to a response rate of about 60 per cent.

Relevant data and an interactive chart for the KOF Business Situation Indicator can be found here:
<https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-business-situation-indicator.html>
→

Further information on the KOF Business Tendency Surveys can be found here:
<https://kof.ethz.ch/en/surveys/business-tendency-surveys.html> →

Contacts:

Klaus Abberger | phone +41 44 632 51 56 | abberger@kof.ethz.ch
KOF Corporate Communications | phone +41 44 633 99 48 | kofcc@kof.ethz.ch

Graphics and table

KOF Business Situation Indicator
(balance, seasonally adjusted)



KOF Business Situation for Switzerland
(balance, seasonally adjusted)

	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21
Private sector (overall)	20.6	21.6	19.0	-19.0	-18.7	-18.0	-7.7	-6.8	-6.8	4.7	3.3	5.8	1.6
Manufacturing	-1.6	2.8	-2.9	-14.7	-23.5	-26.1	-20.2	-17.8	-15.9	-6.6	-13.2	-2.4	-2.4
Construction	32.5	38.1	33.6	3.5	2.6	2.9	12.1	16.3	16.2	19.5	19.6	21.3	23.6
Project engineering	51.3	52.2	48.9	24.3	27.0	25.8	36.2	36.9	34.3	37.3	39.0	38.9	41.1
Retail trade	8.1	4.0	6.8	-25.0	-23.3	-2.4	8.7	14.6	12.3	16.1	13.8	15.9	16.3
Wholesale trade	18.8	-	-	-30.9	-	-	-17.5	-	-	-2.5	-	-	-5.0
Financial services	40.2	39.1	31.9	10.3	26.5	26.7	30.1	27.6	25.9	34.0	35.0	33.6	36.4
Hotel and catering	6.4	-	-	-61.9	-	-	-65.9	-	-	-50.4	-	-	-72.0
Other services	28.1	-	-	-35.0	-	-	-18.1	-	-	1.7	-	-	-8.3

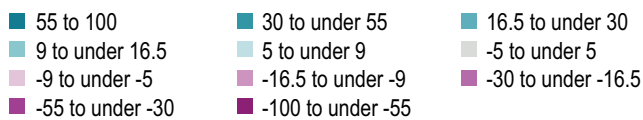
Answers to the question: We assess our business situation as good/satisfactory/bad. The balance is the percentage of 'good' answers minus the percentage of 'bad' answers.

KOF Business Situation in the Private Sector



The angle of the arrows reflects the change in the business situation compared to the previous month

Net balances



KOF Economic Clock: Correlation between the KOF Business Situation and the KOF Economic Barometer

(Seasonally adjusted figures)

